

To: Huntington Beach City Council  
From: Huntington Beach Finance Commission  
Date: September 30, 2025

The City of Huntington Beach Finance Commission (the Finance Commission) would like to alert the City of Huntington Beach City Council (City Council) to a future financial consequence resulting from a June 20, 2021 City Council action. In June 2021, the prior City Council entered into a joint partnership agreement (partnership or agreement) to purchase two apartment buildings in Huntington Beach, Elan and Breakwater, by issuing approximately \$398 million in revenue bonds. As part of the partnership, the prior City Council agreed to:

- Forgo property taxes from the buildings, which averages \$500,000 a year;
- Pay an outside Asset Manager, Catalyst, \$68 million for administrating this deal; and
- Receive the opportunity to purchase the buildings between 2036 - 2050 at an estimated purchase price of \$431 million.

As of the date of this letter, this partnership is operating and the current City Council must prepare for the future consequences. The Finance Commission recommends the City take the following actions:

- Require future City Councils to take action between 2036 - 2050 because all the City's benefits are eliminated after 2050;
- Create a fund and begin to reserve money for the potential purchase of \$431 million;
- Challenge the legality of the contract:
  - When the City purchases these buildings, the City must absorb the existing revenue bonds used to purchase the buildings, however, these bonds were not approved by the voters in Huntington Beach, which is required by City Charter - Section 611;
  - California law of 1949 prohibits cities from investing in real estate as investments, which is the only benefit to the City;
  - Prior City Council allowed the property to become property tax exempt simply through structuring resulting in a \$500,000 loss annually.

The Finance Commission has discussed this agreement multiple times and our presentation on these buildings is attached, for your reference.

City of Huntington Beach Finance Commission

Attachments:

2025-6 - Breakwater and Elan Apartments

# Breakwater and Elan Apartments

Finance Commission

June 2025

# History

- Catalyst structured a deal to purchase two apartments
  - Breakwater is 400 units
  - Elan is 274 units
- In July 20, 2021, City Council approved deal 5 - 1
- Properties purchased for \$272 million with \$398 million of bonds/debt (146% debt to asset)
  - Original issuance costs of the bonds were over \$21 million (over 5%)
- Apartments do NOT pay property taxes
  - City's lost property taxes averages \$500,000 a year
  - City must repay property taxes to all other government agencies, which is estimated to be \$90 million

# Bond issuance costs ~ \$21 million

## Breakwater (CMFA Special Finance Agency VII)

### Official "Costs of Issuance":

- Orrick (Bond Counsel): \$240,000
- Ballard Spahr (Underwriter's Counsel): \$100,000
- Jones Hall (Issuer Counsel): \$80,000
- Black Law Group (Project Admin Counsel): \$50,000
- Sierra Management Group (Financial Advisor): \$150,000
- Wilmington Trust (Trustee Acceptance Fee): \$10,000
- Wilmington Trust (Dissemination Agent Fee): \$2,500
- **CMFA** Issuer Fee: \$438,237.50
- Printing/Delivery/Other: \$27,401.75
- Appraisal – Newmark Knight Frank: \$14,000
- Market Study – The Concord Group: \$7,500
- Alta Survey – Partner Assessment Corp.: \$25,450
- Insurance Premium – Alliant Insurance Services: \$470,859.25
- **Catalyst** Due Diligence: \$1,070.78
- Consulting – Falcon Investment Advisors, LLC: \$50,000
- Video Touring – AVRIA, Inc. (dba at HUM): \$6,500
- Insurance Review – Woodruff Sawyer: \$10,000
- PCA Oversight – Gradient Real Estate Group: \$4,300
- Termite Inspections – Termite Done Right!: \$9,030
- **Greystar** Legal Opinion – Kimball, Tirey & St. John LLP: \$5,750
- Engineering Reports – Partner Assessment Corp.: \$29,000
- Property Tax Opinion – Meyers Nave: \$15,000
- Printing – Image Master (2 line items): \$6,200
- Valuation – Strategic Valuation Group: \$12,000
- **Greystar** Due Diligence Costs: \$4,000
- Title/Escrow Fees & Endorsements – First American Title: Approx. \$121,150
- **Jefferies LLC** (Underwriter's Discount): \$3,021,367.33
- **Catalyst** Transaction Fee: \$3,000,000

**Total Bond-Related Costs (Breakwater): ~\$11.49 million**

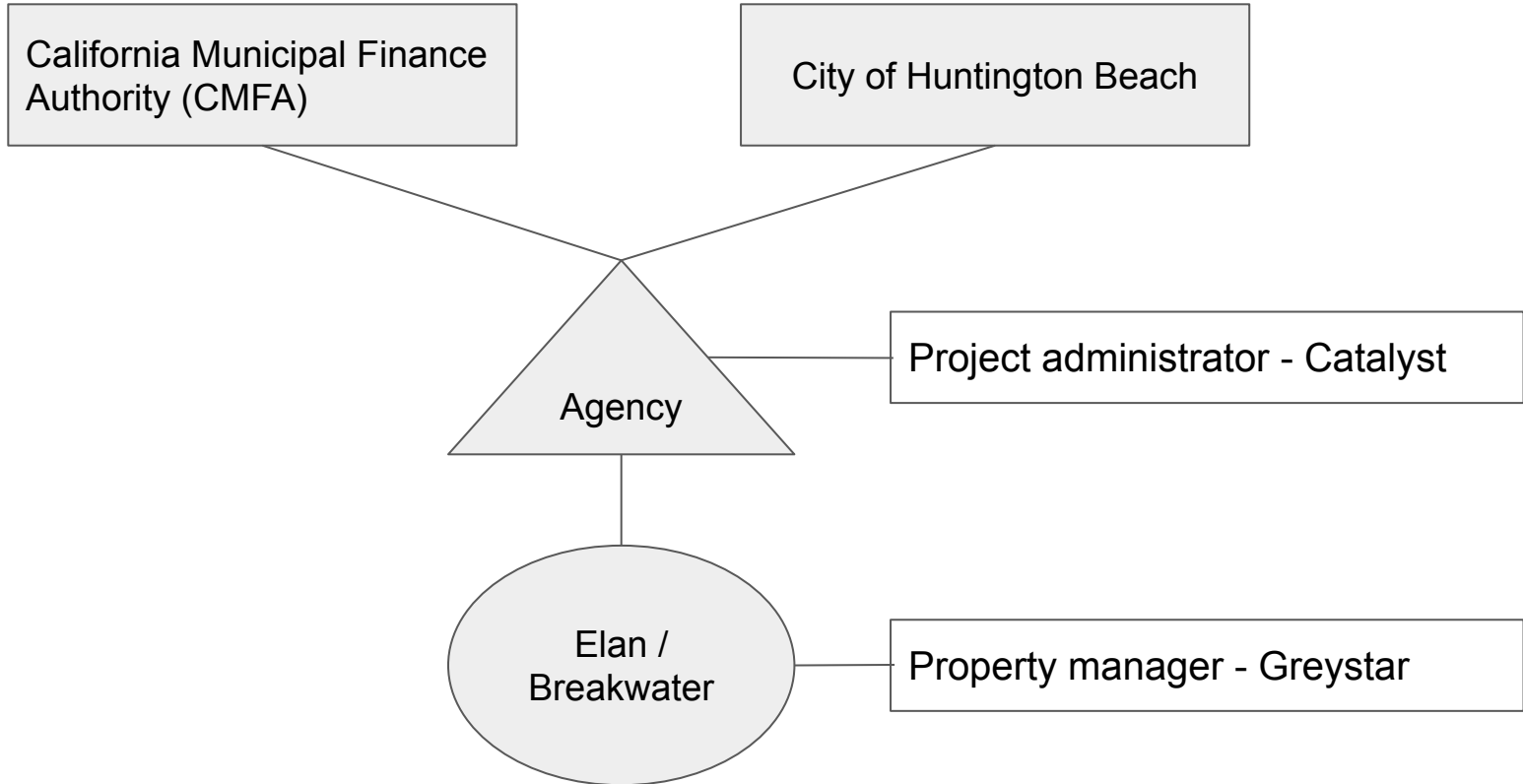
## Elan (CMFA Special Finance Agency VIII)

### Official "Costs of Issuance":

- Orrick (Bond Counsel): \$240,000
- Ballard Spahr (Underwriter's Counsel): \$125,000
- Jones Hall (Issuer Counsel): \$100,000
- Black Law Group (Project Admin Counsel): \$75,000
- Meyers Nave (Property Tax Counsel): \$50,000
- Sierra Management Group (Financial Advisor): \$225,000
- Wilmington Trust (Trustee Acceptance Fee): \$10,000
- Wilmington Trust (Dissemination Agent Fee): \$2,500
- **CMFA** Issuer Fee: \$500,000
- Printing/Delivery/Other: \$55,555.15
- Appraisal – Newmark Knight Frank: \$10,000
- Market Study – Concord Group: \$7,500
- ALTA Survey – Partner Assessment Corp.: \$6,875
- Insurance Premium – Alliant Insurance Services: \$178,040.76
- **Catalyst** Due Diligence: \$2,066.20
- Property Tax Opinion – Meyers Nave: \$15,000
- Insurance Review – Woodruff Sawyer: \$10,000
- Advisory – Falcon Investment Advisors, LLC: \$50,000
- Valuation – Strategic Valuation Group: \$12,000
- Printing – Image Master (2 line items): \$8,450
- Video Touring – AtHum: \$7,480
- PMC Opinion – Kimball, Tirey & St. John LLP: \$5,750
- PCA Oversight – Gradient Real Estate Group: \$4,300
- Termite Inspection – Termite Done Right: \$6,105
- Brokerage Fee – Marcus & Millichap: \$1,500,000
- Title/Escrow Fees & Endorsements – First American Title: Approx. \$1,917,902
- **Jefferies LLC** (Underwriter's Discount): \$2,068,534.84
- **Catalyst** Transaction Fee: \$3,000,010
- **Greystar** Due Diligence – Greystar California, Inc.: \$2,740

**Total Bond-Related Costs (Elan): ~\$10.20 million**

# Ownership Structure



# 2024 Financial Highlights

Annual financial metric	Breakwater	Elan	Total
Net income	\$ (4,046,538)	\$ (3,137,832)	\$ (7,184,370)
Operating cashflow*	7,961,971	5,554,265	13,516,236
Interest and principal payment	8,040,900	7,185,000	15,225,900
Estimated fair value at 5% cap rate**	159,240,000	111,085,300	270,325,300
Net asset value	193,251,229	135,618,647	328,869,876
Outstanding bonds/debt	233,182,500	160,245,752	393,428,252
Debt to net asset value (%)***	121%	118%	120%

\* Excludes interest and capital expenditures

\*\* Operating cashflow / Cap rate = Estimated Fair Value; this data is derived from the audited financial statements

\*\*\*Outstanding debt / Net asset value

# Projected Debt Payments and Debt Balance

Years	Principal and interest payments	Debt balance
2024	15,225,900	393,428,252
2025	13,118,700	393,373,252
2026	13,478,500	392,953,252
2027	13,892,400	392,098,252
2028	14,043,700	391,053,252
2029	14,752,600	389,253,252
2030 - 2034	89,050,400	361,878,252
2035 - 2039	93,058,100	324,778,252

- City can exercise its option to take the properties between 2036 and 2050
- If the City forces a sale, the City must repay all outstanding debt, closing costs, and deferred fees (e.g., deferred property taxes of approximately \$90 million), which is approximately \$431 million

# Who Benefits?

<b>Huntington Beach</b>	Can exercise right to take the properties and assume all debt between 2036 - 2050, or force a sale but City must repay debt, closing costs, and deferred fees (approx. \$431 million)
<b>CMFA</b>	Received debt issuance costs of approximately \$1 million in fees
<b>Greystar</b>	Earned \$12,000 at issuance of debt  Earns an annual management fee, which was \$455,000 in 2024
<b>CATALYST</b>	Received over \$16 million at issuance of debt (collected \$6 million - \$2 million was reimbursable costs, and 'loaned' \$10 million)  Receives a project administration fee and interest payments, annually, which was \$1.3 million in 2024.



# Catalyst Fees

<b><u>ANNUAL</u> payments to Catalyst - 2024</b>			
<b>Payment type</b>	<b>Breakwater</b>	<b>Elan</b>	<b>Total</b>
Project administration	\$250,000	\$250,000	\$500,000
<u>Interest at 8%</u>	<u>400,000</u>	<u>400,000</u>	<u>800,000</u>
<b>Total</b>	650,000	650,000	<b>1,300,000</b>

- Catalyst charged **\$16 million**, \$2 million from reimbursable costs, to put this deal together (\$8 million Breakwater and \$8 million Elan)
- Catalyst collected \$6 million at closing and ‘loaned’ the remaining \$10 million to the Agency at **8%** interest-only terminating in 2061 (other bonds are at 3% and 4%)
- In 2061, Catalyst will have received a total of **\$68,000,000**

# Key Issues

- Currently, the apartments do not produce enough money to pay the principal and interest (13% less) and, in under five years, principal and interest payments will increase to \$18 million a year (21% increase). Tenant's rent must increase by 34% in five years.
- The City's 'window' to exercise their option is 2036 - 2050
  - After the City's option expires in 2050, the City has no rights
  - **At 2036, the cost to exercise the option will be approximately \$431 million (bonds of \$325 million, closing costs of \$16 million, and deferred taxes of \$90 million)**
  - Breakwater will be 90 years old and Elan will be 50 years old

# Proposed City Actions

- Staff should become actively involved in the management of Breakwater and Elan
  - Ensure that the capital expenditures and maintenance are done correctly and timely, which is especially important as it gets close to 2036
  - Increase rents, occupancy, and profitability of the apartments as much as possible
  - Start reserving funds in order to exercise the City's option of \$431 million
- Challenge the legality of this arrangement
  - This project circumvented the City Charter requiring a vote of the citizens to issue revenue bonds (Section 611 of City Charter)
  - Circumvented State law of 1949 that prohibits cities from investing in real estate, which is the City's benefit of this transaction
  - City Council allowed the property to be property tax exempt through structuring - loss of \$500,000 annually
- Require all future real estate acquisitions go through a process, including a thorough review by the City Attorney - Elan and Breakwater did not go through any review process by the City Attorney